FACT SHEET

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"Group of 16" Energy Proposal: Light on New Production / Heavy on New Taxes

The "Group of 16" (formerly "Group of 10") energy proposal in the U.S. Senate is a good-faith effort to break the current congressional deadlock on energy policy. Unfortunately, the proposal is a classic case of one step forward, two steps back, or, in this instance, light on new production and heavy on new taxes. At a time when there is an urgent need to address U.S. energy needs and ensure the nation's competitiveness in global energy markets, the proposal would provide only limited access to domestic oil and natural gas resources – while imposing at least $30 billion in new taxes on the U.S. oil and natural gas industry that would limit needed investment, discourage domestic production, and increase dependence on foreign oil. Even with the expected tremendous growth in alternative and renewable energy sources, both oil and natural gas will remain vital components of our energy mix for decades.

Limited Access for Oil and Natural Gas Development

The Group of 16 proposal falls short of providing the necessary access to domestic supplies of oil and natural gas. It is estimated that approximately 23 billion barrels of oil and approximately 45 trillion cubic feet (TCF) of natural gas would remain off limits. Twenty-three billion barrels of oil is the equivalent of 29 years worth of today's imports from the Persian Gulf; 45 TCF of natural gas is the equivalent of 12 years of today's net imports of natural gas. Serious discussion about U.S. energy problems and high energy prices cannot begin without increased access to domestic oil and natural gas resources.

- The proposal would open additional acreage in the Eastern Gulf of Mexico and allow Georgia, North Carolina, South Carolina, and Virginia to opt in to leasing. However, it would prohibit production within 50 miles of the state coasts. Significant quantities of oil and natural gas that could be developed in a timely manner may exist in areas inside that 50-mile buffer.

- Even though the Group of 16 proposal would provide access to some areas currently under moratoria, the following potential resources would remain off-limits:
  - 10 billion barrels of oil and 18 TCF of natural gas expected to be found on the Pacific Outer Continental Shelf;
  - 10 billion barrels of oil and 8 TCF of natural gas in ANWR; and
  - More than half of the nearly 4 billion barrels of oil -- and more than half of the 37 TCF of natural gas -- off the Atlantic Coast.

- The new access provided under the proposal is not guaranteed; several hurdles would have to be overcome, notably the state opt-in requirement. Thus, the end-result could be the worst of both worlds: no new production, with new, counterproductive taxes guaranteed.

- The proposal would create a commission to recommend future areas for leasing. The Outer Continental Shelf Lands Act already gives this authority to the Secretary of the Interior. Congress should make onshore and offshore areas available for leasing and development. Such action would reduce dependence on foreign oil, create American jobs, spur economic growth, and bring billions of dollars in new revenues to the Treasury from bonus bids, royalties, and taxes.

- The industry has proven it can safely develop oil and natural gas resources in all areas, including federal lands. New technologies enable the industry to locate oil and natural gas resources with greater accuracy, to conduct drilling operations more safely and reliably, and to prevent loss of well control and environmental damage. These technologies, in combination with responsible environmental practices, enable the industry to reduce the environmental footprint of exploration and production operations and their effects on habitat, wildlife and water resources. Residents along the Gulf of Mexico coast know that oil and natural gas activity and clean, safe oceans are not mutually exclusive. The industry's extensive safety and environmental safeguards have prevented large-scale spills from offshore production facilities, even when Category 5 hurricanes ravaged the region.

Heavy Taxes on Already Heavily Taxed Oil and Natural Gas Companies

Given the state of world energy markets, the Group of 16's proposal to pay for alternative fuels development by taxing the U.S. oil and natural gas industry could not come at a worse time for the nation's energy consumers. The group's proposal would place an additional $30 billion tax burden on the already heavily taxed industry. These new taxes would undermine our nation's energy security by amplifying the already rising costs to explore for oil and natural gas resources and discouraging new domestic oil and gas production, as well as new investments to expand refinery capacity. In addition, less investment in new U.S. oil and gas production and refinery capacity would lead to fewer, high-paying domestic jobs.

- The Group of 16's industry-specific tax approach has been followed before with substantially negative effects. The last time a punitive new tax was imposed on the oil and natural gas industry – in the form of the windfall profits tax in the 1980s – it decreased the amount of domestic energy that otherwise would have been produced, and consequently increased our nation's reliance on imported oil.

- Already, the top 27 U.S. energy-producing companies have seen their annual tax liability rise to more than $100 billion, an 80 percent increase from 2004 to 2006. New taxes on these U.S.-based energy companies would drastically reduce capital that otherwise could be invested in domestic oil and natural gas projects in the U.S., leaving Americans more dependent on foreign energy sources, while jeopardizing U.S. jobs and economic growth.

- Repealing the Section 199 domestic manufacturing deduction for oil and natural gas companies would discourage new domestic oil and natural gas investment by making those costly energy projects even less economically competitive with foreign investments, thereby further jeopardizing our nation's energy security and U.S. jobs. The deduction established in the 2004 American Jobs Creation Act was designed to broadly create U.S. jobs across all sectors of the economy.
- A new 13 percent severance tax on production in the Gulf of Mexico would only serve to make already costly domestic production all that less competitive against alternative foreign oil and natural gas production projects. Imposition of this tax would effectively nullify relief granted on certain leases issued in the years 1996-2000 pursuant to the Deep Water Royalty Relief Act of 1995 – relief that provided the impetus for robust oil and natural gas production in technically challenging and financially risky deep water areas.
  While identified as a tax, this measure would likely be found to be a breach of the existing lease contracts and, as such, is a serious infringement on the bedrock principle of the sanctity of contracts.
- Increased taxes on oil and natural gas companies would fund efforts to transition 85 percent of America's new motor vehicles to non-petroleum-based fuels within 20 years and other alternative energy incentives. While initiatives to develop alternative fuels are worthy efforts, oil, natural gas and coal will still meet the large bulk of the U.S. energy needs for the foreseeable future.
- The proposal also ignores the fact that the U.S. oil and natural gas industry already provides more than 70 percent of all North American investment in research and development in emerging energy technologies.

Action Needed Now to Ensure Future U.S. Energy Security

"The Group of 16" should be commended for its bipartisan effort to seek solutions to the nation's growing energy challenges. However, a large majority of Americans have expressed their support for expanded access to and development of U.S. oil and natural gas resources. Congress should heed the wishes of the American people and aggressively pursue policies that make greater supplies of oil and natural gas available to U.S. consumers, while avoiding harmful and discriminatory taxes and other changes that run counter to that goal.